

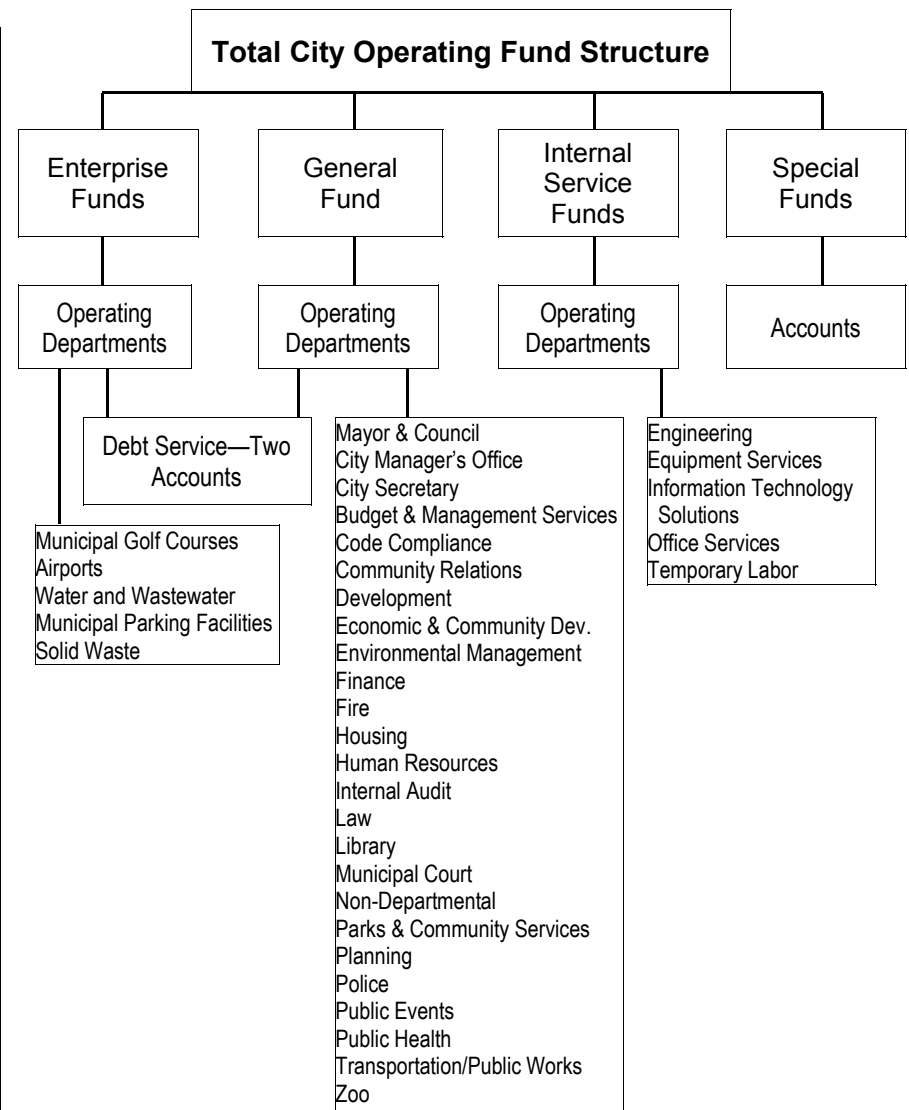
## CHAPTER 3: FINANCIAL TRENDS

Population and economic trends greatly affect the financial planning process of the City, as do international, national, and regional financial trends. City officials must consider these, as well as City revenue trends, existing and potential debt service, and the cost of new facilities when responding to the needs of citizens. Periods of economic contraction require budgeting authority to continue providing services to citizens. Economic expansion and population growth call for detailed fiscal planning to provide new infrastructure and public services.

This chapter presents information on financial planning as it applies to a local governmental entity, and summarizes past, present, and future financial trends for the City of Fort Worth. Monies received by the City are accounted for by using a City Operating Budget. Accounts are grouped under Enterprise Funds, General Fund, Internal Service Funds, and Special Funds. The flow chart shown on the right lists specific departments funded through each. Enterprise funds account for City services that are financed and operated much like private businesses, where the costs of providing services (both operating and capital costs) are financed privately through user charges. The City seeks to eliminate all forms of subsidization to utility enterprise funds. The General Fund has the largest amount of activity because all tax revenue is run through this fund. Internal Service Funds are established to account for the financing of goods or services provided by one department of the City for another. Special Fund accounts are set up to track revenue and expenses incurred for various items listed.

Funds received from grants are handled through a separate budget. The adopted Grants Consolidated Action Plan for June 1, 2005 through May 31, 2006 shows a total allocation of \$11,774,115 from the U.S. Department of Housing and Urban Development (HUD) to the City of Fort Worth. The HUD funding consists of five entitlement grants: Community Development Block Grant, Emergency Shelter Grant, Housing Opportunities for Persons with AIDS, the HOME program, and Neighborhood Building and Housing Outreach. Funds are allocated for administration, community facilities, housing programs, public service programs, economic development, emergency shelter, and unprogrammed funds.

Fort Worth has an abundance of resources and a diverse economy that has made it successful in attracting new businesses, investment, and jobs. According to the North Central Texas Council of Governments (NCTCOG), the total employment for Fort Worth grew by 36.2 percent from 330,350 in 1990 to 449,793 in 2000. Fort Worth has ample land for growth, excellent job-training facilities, a growing population, and adequate infrastructure. These positive factors are an indication of economic prosperity, which typically leads to an expansion of the economic base and increased revenue for the City. In 2005, Fort Worth had an Aa1 (high quality) bond rating from Moody's Investors Service and an AA+ rating from Fitch and Standard & Poor's. All three rating agencies cited Fort Worth's diversified economic base, manageable debt load and conservative financial management practices in determining their ratings.



The City's operating budget is composed of four funds that support operating departments and City accounts. Information in this chapter looks at the financial trends that impact these funds. (Source: *Budget and Management Services Department, 2005.*)

## Revenues

The largest single source of revenue for the City of Fort Worth is from local taxes: property (ad valorem) taxes and sales taxes. Fort Worth relies heavily on property tax revenues, with 55.32 percent of general fund revenue collected from this source. Ad valorem taxes are paid on real property (real estate) and personal property according to the assessed value. Texas law states that all property is assessed on the basis of 100 percent of its appraised value, and real property must be reappraised every three years. Certain exemptions are allowed that lessen the tax burden for homestead property owners, persons 65 or older, and disabled persons. As a result, some properties are totally exempt from taxes. Local jurisdictions set their own tax rates.

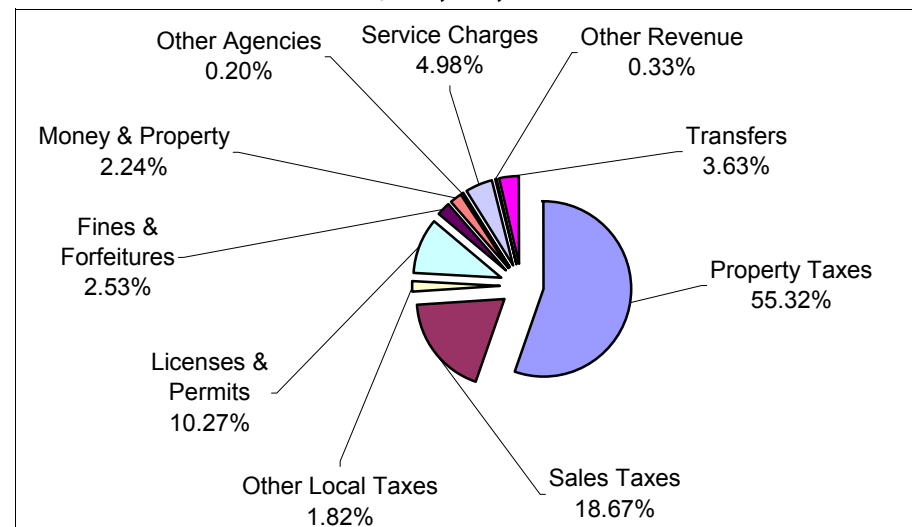
Over the past ten years, the City's property tax rate has changed several times. The rate was reduced seven consecutive times beginning in FY1994-95 from 95 cents to 86.5 cents per \$100 value in FY2001-02. The FY2005-06 tax rate remains 86.5 cents per \$100 value and this rate is the lowest since 1986. The lack of a need to increase taxes recently has been possible due to the increase in total assessed value of real property from 1995 to 2005. Several factors contributed to this increase: 1) total value of all new construction increased from \$524 million to \$1,426 million; 2) the number of new single-family homes built per year has increased from 3,265 in FY 1998-99 to 8,752 in FY2004-05 (the average value of new homes, \$126,882, was higher than that of existing homes, \$102,648); and 3) vigorous reassessment of real property by Tarrant Appraisal District has helped to increase revenue by reflecting the current value of real estate.

Although the tax rate on property has been reduced, it was 24 cents above the average tax rate of five other major Texas cities in 2005. Tax rates in Arlington, Austin, Dallas, Houston and San Antonio averaged 62.20 cents per \$100 value in 2005, with Austin having the lowest rate at 44.30 cents per \$100 value. One possible reason for this is the relatively low value of the existing housing stock in Fort Worth. In FY2004-05, the appraised value of Fort Worth residential real estate was 32 percent below the average value in the five major Texas cities listed above. This relatively lower value is desirable for affordability, but necessitates a higher tax rate for property owners.

Building activity is expected to level off during the next three years. As noted above, the average value of new homes built in FY2004-05 was \$126,882 while the average value of existing homes was \$102,648. The higher average value of new homes will help balance the comparatively low value of housing stock found in central city locations.

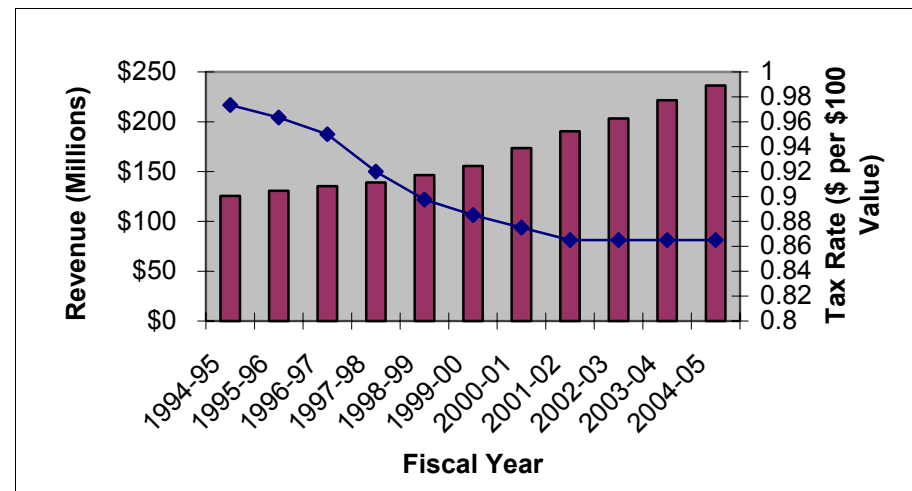
Sales tax, the second major source of tax revenue, comprises 18.67 percent of the General Fund in FY2005-06. This proportion is expected to remain relatively stable over the next five-year period. Relying on one major source of income for the City is considered risky; therefore, increasing sales tax collections is desirable. This increase can only be accomplished by increasing retail sales, on which the tax is

## General Fund Revenue Budget: FY2005-06 \$462,560,547



Property tax and sales tax revenues account for the majority of money in the General Fund. Budgeted percentages of revenue for FY2005-06 are shown above. (Source: Budget and Management Services Department, 2005.)

## Property Tax Trends: FY1995 - FY2005



The total amount of revenue collected from property taxes has been increasing since FY1995. Tax rates decreased from 95 cents per \$100 of value in FY1995 to 86.5 cents in FY2002 and remains at that rate in the FY2005-06 budget. Property tax revenues are budgeted at \$256 million in FY2005-06. (Source: Budget and Management Services Department, 2005.)

state revenue. Local jurisdictions are permitted to collect an additional two percent maximum for city revenue. The City of Fort Worth collects the maximum, and money is allocated to the following: 1.0 percent to the General Fund, 0.5 percent to the Fort Worth Transportation Authority Fund, and 0.5 percent to a special Crime Control and Prevention District Fund. Sales tax collections are affected by national and local economic trends, including availability of discretionary income, shopping facilities, and tourism revenues.

### **Expenditures**

It is anticipated that approximately 55 percent of all revenue will be spent for General Fund items, 32 percent for water and wastewater services, and less than 13 percent on the Crime District, Solid Waste and other miscellaneous expenditures.

The City strives to balance anticipated revenues with expenses and to maintain adequate reserves to cover emergencies. Future deficits are covered by the accumulating reserve. If expenditures exceed revenues frequently or on a recurring basis, the tax base is not sufficient to support City services. This would result in a reduction of City expenditures and related City services. To keep this from happening, the City has established certain policies, such as the one for General Fund reserves.

The City of Fort Worth has an established Financial Management Policy to maintain General Fund reserves at 10 percent of the adopted budget (net transfers to the General Debt Service Fund). For most of the past 16 years, the City has kept its fund balance level at or above the 10 percent goal. Over the past few budget cycles, extensive implementation of expenditure restraints has helped maintain the City's reserves close to the 10 percent goal.

### **Long-Term Debt**

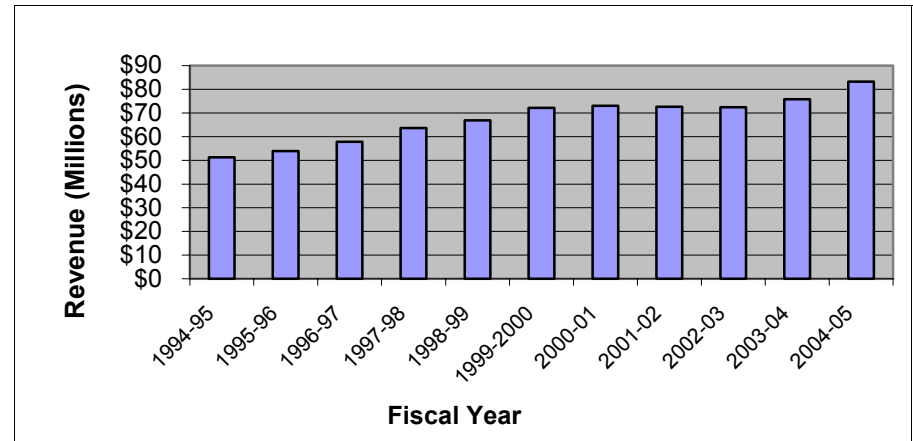
Long-term debt should equal five percent or less of assessed valuation. Staying at or below this benchmark means that the City is not exceeding its ability to pay. During the past two decades, the City has maintained a level of debt below 3.8 percent.

Long-term debt per capita measures the debt burden upon citizens. Outstanding long-term debt per capita rose dramatically from 1980 to 1986, from \$284 to \$957, due to extensive street improvements and new facilities. The long-term debt per capita began to fall in 1994 as the City retired large numbers of bonds. It is projected to remain stable over the next several years by managing the amount of new debt the City issues. The City issued Certificates of Obligation to pay for overages on the 1998 capital improvement bond program. In 2004, voters approved the sale of \$273.5 million in general obligation bonds for capital improvements throughout the city. The City is anticipating another capital improvement bond offering in 2010.

### **Debt Service**

Debt service is the amount paid as principal and interest on all bonds and other debt instruments. Although debt service rose sharply early in this decade, it has begun a downward turn, signifying gradual debt reduction. A ratio of 10 to 20 percent debt to net operating revenue is considered acceptable. Fort Worth's debt service ratio was

### **Sales Tax Collections: FY1995 - FY2005**



Sales tax revenues increased \$31.9 million in the period from FY1994-95 to FY2004-05. (Source: Budget and Management Services Department, 2005).

### **Budget Growth Areas: FY1995 - FY2005**

	FY1995 (Millions of \$)	FY2005 (Millions of \$)	Change
Police	\$70,056,045	\$124,172,778	77.25%
Fire	\$38,198,393	\$74,400,559	94.77%
T/PW	\$21,459,818	\$40,585,947	89.13%
Code	\$1,841,919	\$7,624,067	313.92%
Parks	\$12,335,321	\$21,006,014	70.29%
Library	\$6,879,571	\$14,622,857	112.55%

\* Police expenditures exclude Crime Control and Prevention District spending.

The Departments shown have been the largest budget growth in the ten years between FY1995 and FY2005. (Source: Budget and Management Services Department, 2005.)

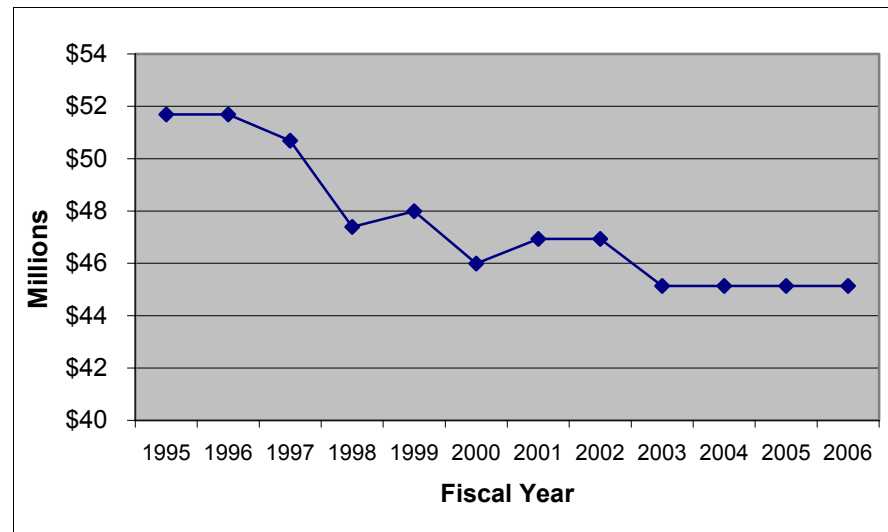
above 20 percent from 1992-1996, after a refinance of general obligation debt in 1992 and additional bond sales for street improvements in the fall of 1993. Voters approved a \$160 million bond program in 1998 and a \$273.5 million capital improvement bond program in 2004. However, this has not impacted debt ratios negatively as the City continues to maintain an aggressive maturity schedule. Debt service ratios are expected to remain well below the target maximum even with the 2004 bond program.

### **Challenges and Opportunities**

Higher valued new homes and businesses will increase property tax revenues, but more property owners will require City services. A healthy balance of commercial and residential uses is desirable to maximize sales tax collections in addition to property taxes. It is important for Fort Worth to continue growing in a contiguous pattern, thereby avoiding unnecessary infrastructure costs. Generally, developers pay for on-site improvements, such as new local streets, wastewater control, and water lines in subdivisions. The cost of upgrading or connecting collector and arterial thoroughfares, as well as upgrading or building public facilities is paid for by the City. Successful implementation of the growth center concept will help Fort Worth efficiently allocate funds needed to construct capital improvements.

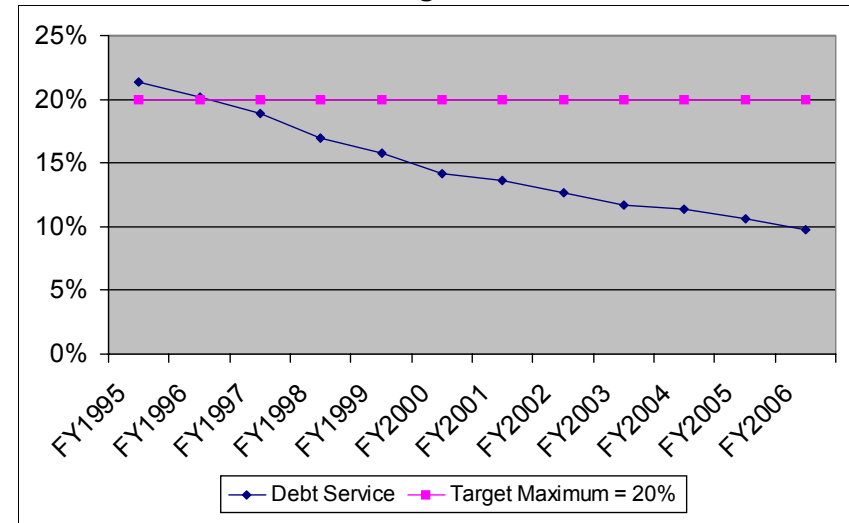
Fort Worth has handled its finances wisely during recent years by reducing debt load and the tax burden on citizens whenever possible. The next few years will challenge City leaders as they provide for continued population growth while maintaining an acceptable level of quality services for citizens.

**Budgeted Debt Service Payments:  
FY1995 - FY2006**



Debt payments made by the City of Fort Worth fell from 1995 to 2003 as the City has paid off large portions of its obligations and restricted new debt issuance. (Source: Budget and Management Services Department, 2005.)

**Debt Service as a Percent of the  
General Fund Budget: FY1995 - FY2006**



The debt service ratio began to fall in 1993 and it has continued to fall since. The budgeted debt service percentage for FY2005-06 is 9.77%. (Source: Budget and Management Services Department, 2005.)